

Global North East: Driving growth in North East trade and exports Executive summary

June 2021



North East England
Chamber of Commerce



Department for
International Trade



Foreword

The priority we placed on international trade in the North East Strategic Economic Plan reflects both our region's industrial and exporting profile and our understanding that the businesses and regions which look outwards for opportunity build their competitiveness and drive higher productivity and better jobs.

We are justifiably proud of our key exporting sectors and businesses – in advanced manufacturing, pharmaceuticals and chemicals, energy, our growing presence in digital and professional services. Over recent years, we have sustained our performance as a net contributor to UK GDP through trade.

We are proud of the North East export capabilities and will continue to work hard to represent these effectively both nationally and on a global stage. As Government works towards the creation of a new strategic approach to promote trade and export we will work with partners in the region to ensure that we understand the opportunities and challenges and take action to support businesses to access opportunities to grow, and to create new, export oriented jobs in the region.

This report is the first step towards this ambition. It sets out a clear evidence base on these issues and our proposals for action in the context of this forthcoming strategy.

I'd like to thank Richard Baker, the North East LEP's Director of Strategy and Policy, and his team for the leadership they have taken to produce this report and also the support we have received from the Department of International Trade and the North East England Chamber of Commerce, from the members of our Strategic Advisory Group and the many businesses and organisations who contributed to producing this report.



Lucy Winskell

Chair, North East Local Enterprise Partnership

In its Plan for Growth, government has set out its intention to produce a new Trade and Export strategy this year. The Strategy will set out a route map to its deliver its vision for Global Britain as we build a new relationship with our European partners and explore new opportunities to trade across the globe, supported by new trade agreements.

There is no doubt that the last few years have been challenging - that much is clear from the data presented in this report. It confirms that the uncertainty of the transition from the European Union and the deep economic shock caused by COVID-19 have had a significant and ongoing impact. However, we take encouragement from the resilience of some of our key sectors and that we are seeing good early results as the Covid 19 lockdown is released.

This report identifies opportunities for further growth for our region in global markets as we look forward in anticipation of the new UK strategy and the work we are doing with partners across the North of England. Our core strengths in manufacturing and energy have proven resilient through the last 12 months and there is potential for increased export-led growth as these sectors continue to grow and diversify in response to global priorities – particularly in the drive to net zero and the recovery from COVID-19. There are further opportunities in offshore wind, electrification, life sciences and in a host of new technologies.

Our service sectors are seeing an acceleration of exports, diversifying our exporting profile and the range of countries we trade with. Digital, financial and professional services are all opportunities to reach out to the world as new trade deals are struck and new trading relationships evolve.

As Government considers its approach to the future, this report prepared in conjunction with our partners, sets out our assessment of our opportunities and challenges, and describes the strategic framework of services and activities we believe are required for enhancing trade support in the North East LEP area to build on our current strengths and to support more regional businesses to internationalise.



Richard Baker

Strategy and Policy Director,
North East Local Enterprise Partnership

The importance of exports to the North East

Businesses in the North East Local Enterprise Partnership (North East LEP) area that export, typically generate over £15bn of revenues from exporting each year, with over £10 billion from exporting goods and nearly £5 billion from exporting services.

In comparison with the rest of England, the North East LEP area currently punches above its weight in goods exports. It remains below average in services, but these are growing faster.

Why is exporting important?

There are significant benefits of exporting for businesses, jobs and the region in general. Data shows that:

- 168, 000 North East jobs are reliant on exports
- Jobs in exporting companies typically pay 7% more than the national median wage
- Businesses that export goods are 21% more productive than the average across the UK.

As the UK moves on from COVID-19, completes its exit from the European Union and looks forward to its economic future, there is a strong rationale to focus on driving growth in North East trade and export.

2020 – a turbulent year

The last 12 months have been turbulent for trading businesses as they were faced with both the impacts of COVID-19 and the uncertainty surrounding the UK's exit from the European Union. For many the impact of COVID-19 is still apparent, and the post EU-exit trade climate remains a challenge.

In 2020, goods exports from the North East region fell by 13% compared to 2019 due to the economic impact of the pandemic, which was most severe in Q2. Service export data is not yet available for 2020 but it is also expected to have fallen.

Despite this, there are some sources of encouragement in the quarterly regional goods exports data:

North East goods exports rebounded swiftly in the second half of 2020, with the Q4 exit rate particularly strong:

- Q4 recorded the second highest quarterly value of North East goods exports since 2014.
- Q4 was 9% higher than Q1, which was predominantly before we began to see the impacts of COVID-19.



Q4 exports to EU countries recovered to similar levels to late 2019/20, although this is likely to be masking some pre-EU Exit stock builds.



In comparison with Q1, Q4 exports to Asia increased by 32% and to USA by 5%, exceeding their pre-pandemic levels, and driving the North East region's export recovery.



Early 2021 national data for Q1 shows that UK goods exports fell by £7 billion (8.7%) vs Q4 2020. This fall was exclusively to EU markets, whilst exports to non-EU markets remained stable.



Despite limited data so far, it is evident that EU-Exit has had a negative short-term impact on UK exports. Data is not yet available to assess regional impact.

Looking forward, the government's economic ambitions set out in "Build Back Better: our plan for growth" feature two key priority themes: "Levelling Up" and "Global Britain". This provides further context to focus on building exports from the North East LEP area.

North East export insights



North East goods exports are currently dominated by flows of road vehicles into the European Union.

Manufacturing is the bedrock of the region's goods exporting performance.

The North East region is more heavily dependent on EU exports than other regions, with 56% of exports to the EU in 2020 compared with 48% for England.

North East goods export flows come from a small number of large exporters, and we need to do more to strengthen the percentage of businesses engaged in goods exporting, and to support the growth of exporters across the business community.

Power generating equipment, electric machinery and pharmaceuticals are also important features of the North East's goods exporting portfolio. These are much less reliant on flows into the EU, with the USA and a range of other countries being critical markets.



Financial and insurance services are the biggest service exporters in the North East. Trade is primarily the USA, with Europe much less significant in the North East's largest service export sector.

Manufacturing services and professional, scientific and technical services also feature strongly, aligning with some of the goods exporting strengths. These service exports flow strongly into the USA and other countries as well as to the EU.

The North East region's service exports are growing faster than the goods exports, with a significant geographic focus around Newcastle and Gateshead local authority areas.

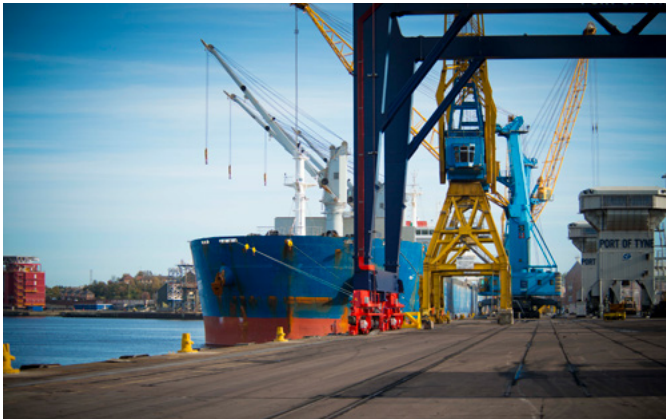


The North East export ambition

The following targets have been set to close the competitive gaps set out in the government's 2018 Export Strategy and to prioritise exporting as critical to the North East's response to the impact of COVID-19. These will be reviewed further as the forthcoming strategy is developed.

	Germany 2017	UK 2017	North East 2017	Target 2030
% GVA from export of goods and services	47%	30%	33%	35%

	UK	Northern Powerhouse	North East	Target 2030
% businesses engaged in exporting	9.5%	7.5%	6%	9.5%
5yr attrition rate			50%	25%



North East sector export proposition

We have reviewed data about the North East's assets and current markets to which they export. We then combined this with market segmentation analysis and ratified our evidence base through an engagement process with over 80 stakeholders.

We have used this intelligence to form and set out a number of ambitious propositions for both targeted trade marketing and the action of business support services in the region, nationally and internationally.

The proposed North East Export Sector Proposition is layered and embraces the key exportable strengths identified in the region's Strategic Economic Plan. It includes:

- Building on existing strengths in exporting goods in:

 **Advanced manufacturing**

 **Offshore energy and subsea technologies**

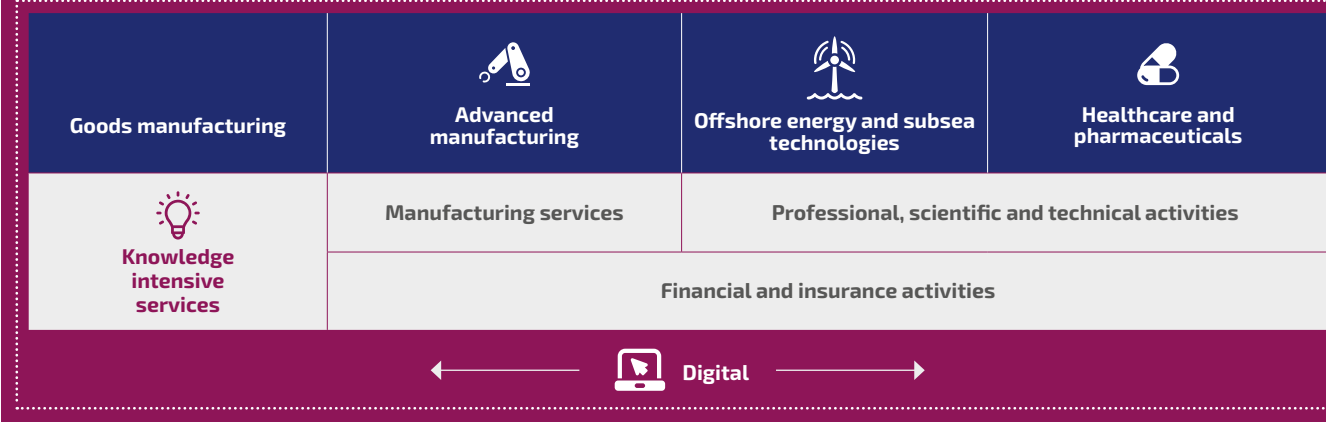
 **Healthcare and pharmaceuticals**

- Promoting our innovation assets which are working on the disruptive forces of electrification and automation, green energy and ageing, each of which provide opportunity platforms to differentiate our offer.

Alongside, it is proposed to strongly promote a service export offering built upon a platform of financial and insurance activities, and other knowledge intensive services aligned to goods export strengths including manufacturing services and professional, scientific and technical activities.

A surrounding envelope of digital export innovation provides both exportable intellectual property in its own right, and an offer as an innovative enabler of all other sectors.

Our strengths and sector approach



Priority markets for North East LEP area

The strategy proposes to focus activity on a small number of countries to drive visible impact and to maximise use of resource. The strategy proposes the use of two categories of export target market:

1. **Prime:** representing combination of current significance and relative strength
2. **Opportunity:** representing growth focus or potential to improve underperformance

Prime markets



Opportunity markets



Strategic priorities

In order to understand the factors that influence the success of businesses in their export journey, we have explored obstacles, critical success factors and support through individual discussions and a business export survey. This intelligence helped inform the strategic priority action areas and strategic enablers, which are:

1	Sector thinking Increase the depth of understanding of our target market sectors by fully developing the North East export propositions for those sectors, namely advanced manufacturing; offshore energy and subsea; healthcare and pharmaceuticals; digital and knowledge intensive services.
2	Business level thinking Monitor progress and target exporter development at a business level – brings challenges to secure access to the necessary data, which must be overcome.
3	Market opportunity Work with business organisations to articulate and share aligned views of market opportunity for target sectors based on industry standard forecasts, in addition to export history.
4	Support ecosystem Ensure the existing exporting support available is both joined-up and accessible. Identify and close support gaps.
5	Communication Proactively promote the North East's exporting offer to current and potential export target markets and to investors.

Strategic enablers

The table below links the strategic priorities to a number of strategic enablers, the action of which are the recommendations of this report. Strategic priorities two, three and four must be addressed in a sector-specific manner, whilst the strategic enablers for communication can be multi-sector.

Strategic priorities		Strategic enablers
Sector-specific	Business level monitoring and action	Business level data analysis (controlled)
		Meaningful sector export pipelines
	Market opportunity	Department for International Trade (DIT) targeting of potential exporters
		Common use of industry sector forecasts
		Focused sector connections to DIT and Her Majesty's Trade Commissioner (HMT) overseas posts
		Relationship map and plan top 10 markets
Multi-sector	Support ecosystem	Influence (and react to) free trade agreements
		Sector export pathways — facilitated development
	Communication	Led by sector
		Role of export champions and service providers
		To potential exporters — pipeline; case studies
		To potential customers
		To potential investors
		To employees of the future
	Promoting collaboration	Harness post-COVID-19 crisis-led collaboration
		Important role of sector associations / clusters
		Connect business to non-business stakeholders

What's next

Next steps

At a strategic level, the report:

- Provides the evidence base and proposals for the ongoing improvement of the business support and trade and export services in the North East. It provides the framework for ongoing monitoring of evidence and targeting of information to promote forward focus and strategic direction.
- Contributes evidence and proposals for the development of the Northern Powerhouse Trade and Export strategy. It is one of 11 reports produced at a LEP area scale across the North of England and sits alongside a number of industry focused reports. It is expected that this work will be completed at a Northern Powerhouse level by early summer, providing a shared framework for growth in northern exports.
- Contributes evidence and proposals to inform the development of a new UK trade and export strategy. It identifies the framework of services and activities which the region would recommend are facilitated through this new strategy. The timeline and framework for this remains unclear although the budget published in March identified that this would be published within the following 12 months.

A second phase of work following the development of this strategy has been agreed, which includes:

- Extending the evidence base for target sectors' opportunity markets and their supply chains
- Developing sector-specific export sales plans by market
- Using appropriate data to create and analyse export pipeline models
- Establishment of an export pathway model to enable the development of future services
- Promotion of strengthened trade-focused networking
- Strengthening linkages between the internationally-focused activities in the region including trade, investment, research and innovation, education, tourism and connectivity, linked to a range of economic and policy drivers.

This work will be developed as further strategic processes are taken forward enabling alignment with national and Northern Powerhouse-level export strategy development.

This report was developed by the North East Local Enterprise Partnership under the guidance of a Strategic Advisory Group.

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Would you like more information?

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